TEXAS WINDSTORM
INSURANCE ASSOCIATION

Biennial Report to the 85th Legislature

December 2016

Texas Windstorm Insurance Association
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December 30, 2016

The Honorable Greg Abbott, Governor

The Honorable Dan Patrick, Lt. Governor

The Honorable Joe Straus, Speaker of the House

The Honorable Kelly Hancock,
Chair Senate Business & Commerce

The Honorable John Frullo, Chair House Insurance

The Honorable Larry Gonzales,
Chair Sunset Advisory Commission

David Mattax, Commissioner of Insurance

Dear Governors, Speaker, Chairmen, and Commissioner,

In accordance with Texas Insurance Code 2210.0025, I am pleased to submit the Biennial Report of the Texas Windstorm Insurance Association on behalf of its Board of Directors.

The Texas Windstorm Insurance Association was created as a market of last resort to protect coastal Texans who are unable to find coverage in the private market. Without TWIA, many coastal residents would be unable to obtain windstorm and hail insurance, a necessity the Legislature has determined is vital to the economic welfare of Texas. This charge and our mission to provide these essential property insurance products and services to eligible Texas policyholders when no one else will, are ones that we take very seriously.

As the needs of Texas citizens and our other stakeholders evolve, so must we. The Legislature acknowledged this with the passage of House Bill 3 in the 82nd Legislative Session and Senate Bill 900 in the 84th Session, among other legislation. This report illustrates the significant strides the Association has made in the last five years, culminating in its release from the Texas Department of Insurance's Administrative Oversight earlier this year, and summarizes proposed legislative changes for your consideration. These recommended changes have been developed through a collaborative process with stakeholders and align with TWIA's mission and core values of service and respect, efficiency and financial stability, and accountability and integrity.

The legislative recommendations focus on proposals to further solidify and strengthen TWIA's ability to meet its financial obligations and provide contingency plans in post-event years and additional measures that will allow TWIA to best serve the needs of our policyholders and the coastal communities in which they live.

Thank you for the opportunity to provide this information and for your consideration. Should you have any questions or need additional information, please do not hesitate to contact me at (512) 899-4949 or Jennifer Armstrong, Vice President of Communications & Legislative Affairs at (512) 637-4031.

Sincerely,

John W. Polak, CPCU
General Manager
Texas Windstorm Insurance Association

TEXAS WINDSTORM INSURANCE ASSOCIATION

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Introduction

The Texas Windstorm Insurance Association (TWIA) 2016 Biennial Report is submitted on behalf of the TWIA Board of Directors in accordance with Texas Insurance Code 2210.0025. As required by law, this report includes proposed changes in legislation relating to the regulation of the Association, statements regarding the reasons for the proposed changes, and additional information about the current operations and initiatives of the Association.

The TWIA Board formed a Legislative and External Affairs (LEA) Committee to comply with this requirement. The Committee met on August 1, September 12, and October 21, 2016 to develop recommendations for the Board's consideration. The recommendations included herein were approved by the Board at the December 6, 2016 quarterly meeting.

In addition to the recommendations, this report includes proposed legislative language for each recommendation, information about the Association's achievements and implementation of legislation since the 84th Legislative Session, and an overall snapshot of TWIA's operational performance year-to-date.

Texans Serving Texans

TWIA's Board and management team recognize that the Association must be a continuously improving organization, and persistently seek ways to enhance the organization's effectiveness. The Association employs extensive controls and detailed financial and operational metrics to measure and evaluate performance at every level of the Association. Developed in 2016, the enterprise scorecard below provides a snapshot of TWIA's performance in key areas of operations, followed by recent notable achievements. As of November 30, the scorecard indicates TWIA is exceeding goals in every operational area and the key accomplishments are evidence of TWIA's continued commitment to provide quality service to our policyholders, ensure the financial sustainability of the enterprise, and operate efficiently to achieve the best use of policyholder funds.

Enterprise Scorecard & Key Accomplishments

	YTD	Trend	Goal	Δ	Performance
Operating Expenses [1]	5.1%		5.3%	-0.2%	
Contribution to CRTF [2]	$119.1 M		$82.4 M	$36.7 M	
Enterprise Projects [3]	93%		90%	3%	
Policy Administration [4]	98%		90%	8%	
Claims Handling [5]	94%		90%	4%	
Disputed Claims [6]	1.6%		2.0%	-0.4%	
Litigated Claims [7]	0.36%		0.50%	-0.14%	
Complaints [8]	39		55	-16	

Notes: [1] Operating expenses are non-acquisition expenses as a percentage of earned premium

[1, 2] Goal is variance to plan, consistent with financial reporting

[3] Projects in Strategic Plan completed on time or currently on track

[4] Percentage of policy transactions completed within 14 days

[5] Percentage of claims with payment issued (or closed without payment) within 30 days

[6] New disputes as a percentage of claims received

[7] New litigation as a percentage of claims received

[8] Complaints received

REFERENCE DATA	
Policies In-Force	256,564
Exposures In-Force	$74.2 billion
Written Premiums YTD	$459.2 million
Claims Received YTD	7,928
Losses Incurred YTD	$39.6 million

- Maintained an expense ratio at or below 5.5% for the past six years, comparing favorably to other plans as well as the industry average of 12%.
- Performed below budget on controllable expenses for the fifth straight year.
- Brought the Catastrophe Reserve Trust Fund (CRTF) to the highest balance since its inception—a projected $730 million for the 2017 hurricane season—resulting from a projected contribution of $142 million in 2017 from 2016 operations, $93 million from 2015 operations despite the largest storm season since Ike, and $262.7 million from 2014 operations.

- Secured approximately $4.9 billion in funding for 2016 – greater than a 100-year season – continuing the trend of progressively higher funding levels each year since 2009 and over $2 billion more than the total cost of Ike; secured $350 million in second-season funding in 2016 to protect against additional costs the year following a catastrophe.

- Increased automation and internal efficiency with the 2015 implementation of a new policy administration system, Policy Center, allowing TWIA to issue approximately 90% of new and renewal policies immediately without underwriter intervention and eliminating the seasonal backlog of policy transactions.

- Developed depopulation process to offer TWIA policyholders alternatives in the voluntary market, resulting in over 100,000 offers from four carriers and agent approval of over 18,000 policies for possible transfer to the carriers in June 2017.

- Tested catastrophe response capacity following the 2015 spring storm event which generated over 18,000 claims; maintained favorable cycle times and high customer survey scores.

- Improved claim handling efficiency and productivity with the 2016 implementation of a new claims administration system, Claims Center, which allows policyholders and agents to report and manage claims online, including reviewing and submitting documents, messaging a claims team member, and reviewing claims status details.

- Launched new **TWIA.org** website that dramatically improves the user experience and provides analytics to refine communication strategies.

- Created Agent Advisory Group and Agent Technical Working Group to provide agent input into Association process changes and policy and claims administration systems; resulted in improved communications and engagement with agent community.

Operations & Initiatives

Recent audits completed by TDI and an independent consulting firm reported no significant negative findings, confirming the vast improvement in operations. In addition to implementing legislative and regulatory changes during the preceding biennium, TWIA continues to identify areas for improvement in processes and procedures and to adopt industry best practices to ensure that the Association operates as efficiently as possible. For a full description of the regulatory and operational changes over the past five years, see **Appendix A**.

Funding

Effective September 1, 2015, Senate Bill (SB) 900, passed by the 84th Legislature, revised TWIA funding sources, providing a combination of public securities and company assessments and requiring total funding in an amount at least equal to the 100-year Probable Maximum Loss (PML), sufficient to cover 99% of all possible storm seasons.

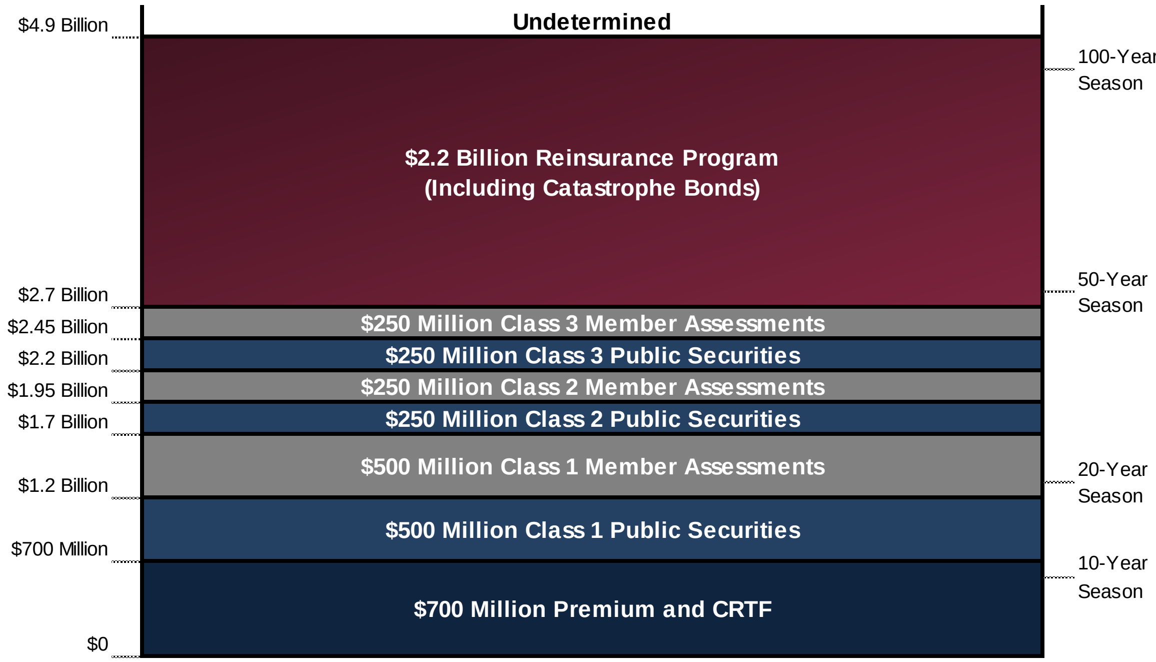
Prior to the enactment of SB 900, the Board of Directors had approved TWIA to secure funding of $4.9 billion for the 2015 hurricane season – equal to the 100-year PML, almost $2 billion more than the combined costs of Hurricanes Dolly and Ike, and significantly greater than any previous year's funding since 2009.

Due to a reduction in TWIA exposures and minor changes in the hurricane models, the 100-year PML for 2016 has decreased to $4.7 billion. TWIA's 2016 reinsurance program, effective June 1, 2016, continues to provide $4.9 billion in total aggregate funding, sufficient for over 99% of all possible storm seasons and in excess of the statutory minimum funding. The reinsurance program provides coverage on an aggregate basis, meaning multiple hurricane events will be covered under the same reinsurance program. The 2016 program also includes catastrophe bonds, originally issued in 2014 and 2015, with staggered expirations in order to provide multi-year stability, diversification, and expanded claims-paying capacity.

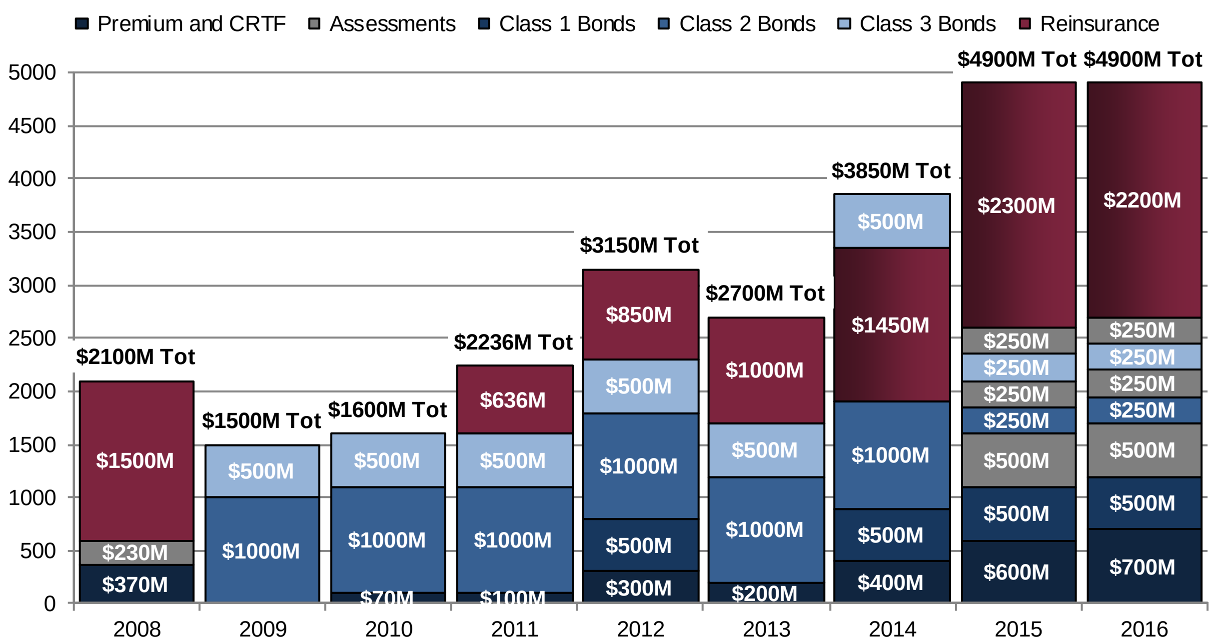
Subchapter B-1 of Chapter 2210 (Sections 2210.071 – 2210.075), as amended by SB 900, describes the different sources of funding available to pay TWIA losses. Those sources are, in order:

- TWIA premiums and other revenue
- Available reserves and amounts in the CRTF
- Up to $500 million in Class 1 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to $500 million in Class 1 assessments on TWIA member companies
- Up to $250 million in Class 2 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to $250 million in Class 2 assessments on TWIA member companies
- Up to $250 million in Class 3 public securities, to be repaid by TWIA premiums and/or surcharges on TWIA policies
- Up to $250 million in Class 3 assessments on TWIA member companies
- Reinsurance or alternative risk financing in an amount sufficient to achieve total funding not less than a 100-year hurricane season

All Classes of public securities are backed solely by TWIA revenues and are not obligations of the State of Texas. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property policies. TWIA's funding for the 2016 hurricane season is illustrated by the chart below and followed by a historical comparison of funding levels.



Storm frequencies based on modeled losses using TWIA exposures as of 12/31/15



Funding for 2008 shown as it existed for Hurricane Ike, post-Hurricane Dolly; unlimited additional funding was available via reimbursable assessments. Funding for 2009-2011, 2013 assumes $0 Class 1 Public Securities issuable. Funding for 2012, 2014-2016 includes $500 million pre-event Class 1 Public Securities. Funding for 2015-16 incorporate bond repayments that differ from prior years.

Depopulation

SB 900 authorized TWIA to create two new depopulation programs: a Voluntary Market Depopulation Program and an Assumption Reinsurance Depopulation Program. Pursuant to the newly passed Subchapter O of Chapter 2210 (Sections 2210.701 – 2210.705), TWIA is required to administer the depopulation programs to encourage the transfer of Association policies to insurers through the voluntary market or assumption reinsurance. TDI rules governing these programs were published and effective December 22, 2015. TDI formally approved the Voluntary Market Depopulation Program effective March 31, 2016 and the Assumption Reinsurance Depopulation Program effective July 14, 2016.

Detailed descriptions of both programs and an update on their status are outlined below.

Voluntary Market Depopulation Program

The Voluntary Market Depopulation Program functions similarly to TWIA's prior depopulation program, the Voluntary Coastal Windstorm Insurance Portal. Participating insurers must file rates with and have forms approved by TDI and sign a Nondisclosure and Terms of Use Agreement (NDA) to obtain electronic access to TWIA policyholder data. Participating insurers must approach the agent of record to make offers of coverage at least 60 days prior to policy renewal. Acceptance of any offers is strictly voluntary, and no changes will take place unless the agent and policyholder affirmatively accept the participating carrier's offer. Participating insurers may make offers of coverage at any time throughout the year.

Assumption Reinsurance Depopulation Program

The Assumption Reinsurance Depopulation Program allows for assumption reinsurance agreements between TWIA and participating insurers to facilitate depopulation, allowing large numbers of TWIA policyholders to obtain coverage from private market insurance companies interested in writing on the Texas coast. This type of transaction, often called a "takeout," has been used effectively in Florida and Louisiana to minimize the use of those states' residual markets. Under the program, interested insurers must file rates with and have forms approved by TDI and sign an NDA in order to review and select the TWIA policies they are interested in taking out. In contrast to the Voluntary Market Depopulation Program, participating insurers are also subject to additional financial review by TWIA and TDI. Participating insurers must offer comparable coverage and premiums to the TWIA policy and must offer at least three renewals under these comparable terms to any policy taken out as part of the program.

Agents have the opportunity to approve or reject any offers made by participating insurers through TWIA's depopulation website. Policyholders have the ability to opt out of the depopulation process, and any policyholders who do not opt out will automatically have their TWIA policies assumed, or transferred, by the participating insurer.

Participating insurers began selecting policies for depopulation in summer 2016; policies will be assumed effective June 1, 2017. This program will repeat annually.

Depopulation Programs Status

A total of 14 individual insurance companies were granted access to both the Voluntary Market (14) and Assumption Reinsurance (12) Depopulation Programs.

Four companies completed the requirements for the Assumption Reinsurance Depopulation Program by the August 25, 2016 deadline and provided TWIA with their list of policy offers. Maison Insurance Company, United Property and Casualty Insurance Company, The Woodlands Insurance Company, and Weston Insurance Company submitted policy offers for the program, resulting in a total of 102,171 unique offers presented to agents.

The agent review and approval period concluded on October 31. A total of 18,074 policies were approved by agents for possible transfer to the participating companies, representing approximately $32 million in written premium and $5.1 billion in direct exposures as shown in the tables below. TWIA and the participating companies presented offers to TWIA policyholders beginning December 1. Policyholders who choose not to opt out of the program will have their policy automatically transfer to a participating company on June 1, 2017. As of December 28, 2016, 1,016 policyholders have opted out, choosing to remain with TWIA.

The following tables show the distribution of approved offers by company, policy type, and county:

Company	Offers	Premium	Direct Liability
Maison	1,678	2,798,091	528,005,122
The Woodlands	2,710	4,253,433	714,555,723
UPC	4,582	7,601,098	1,345,619,088
Weston	9,104	17,012,188	2,491,900,697
Total	**18,074**	**31,664,810**	**5,080,080,630**

Policy Type	Offers	Premium	Direct Liability
Residential	17,258	27,574,441	4,713,389,779
Commercial	816	4,090,369	366,690,851
Totals	**18,074**	**31,664,810**	**5,080,080,630**

County	Offers	Premium	Direct Liability
Aransas	534	1,255,698	191,144,776
Brazoria	3,961	6,865,856	1,176,778,449
Calhoun	262	568,066	70,838,798
Cameron	2,007	3,014,225	434,491,978
Chambers	587	1,070,371	195,703,857
Galveston	3,050	5,974,061	1,051,377,322
Harris	40	98,003	12,830,313
Jefferson	2,226	4,417,144	605,526,398
Kenedy	0	0	0
Kleberg	122	152,138	20,968,407
Matagorda	232	443,720	60,256,026
Nueces	4,135	6,314,657	1,030,709,579
Refugio	36	65,464	8,840,079
San Patricio	816	1,317,085	206,306,333
Willacy	66	108,322	14,308,315
Totals	**18,074**	**31,664,810**	**5,080,080,630**

Windstorm Inspection Process: Certificates of Compliance

House Bill (HB) 2439, enacted in 2015, amended several sections of the Texas Windstorm Insurance Act relating to building code inspection and certification requirements. One significant change is the addition of new Section 2210.2515, titled "Issuance of Certificates of Compliance." This section authorizes a person to apply to TWIA for a certificate of compliance for a completed improvement if a licensed engineer designed the improvement, affixed the engineer's seal to the design, and submits an affirmation of compliance to TWIA or the licensed engineer completes a sealed post-construction evaluation report that confirms compliance with the applicable building code. The law provides that TWIA shall issue a certificate of compliance once the professional engineer provides the required information.

Section 2210.2515 also provides that if TDI cannot issue a certificate of compliance on an ongoing improvement because TDI has not received all of the information and fees TDI requires, a person may apply for a certificate of compliance from TWIA.

The bill went into effect on September 1, 2015 and applies to policies delivered, issued for delivery, or renewed on or after January 1, 2017. The bill requires the Commissioner to adopt rules no later than December 31, 2016.

TDI proposed formal rules to implement HB 2439 on September 27, 2016, and TWIA staff provided comments by the October 31, 2016 deadline. TWIA staff met with TDI in October and November to discuss the logistics of implementing HB 2439, and staff are implementing a process based on TDI's feedback in advance of the January 1 statutory deadline, while awaiting TDI's adoption of the final rules.

Expert Panel

HB 3 required the Commissioner to appoint an expert panel to provide the Association with a methodology for determining the extent of damage resulting from wind versus flood or surge. TDI posted the Expert Panel's informal working draft of the rules for TWIA Claim Settlement Guidelines in May 2016, and the Association hired a consultant to assist with the project to develop accurate implementation costs, risks, exposures, and timelines associated with implementing the Expert Panel's recommendations based on the proposed rules. The information developed by the consultant indicated that the costs to implement the Expert Panel's recommendations and the proposed rules are substantial and significantly higher than the costs estimated by the Expert Panel. TWIA has asked the Commissioner to direct the Expert Panel to consider alternative requirements with the goal of developing a methodology that will be substantially less costly to implement and maintain. TDI is currently reviewing the consultant's cost estimate report and the Association's comments on the rules.

Legislative Recommendations

The recommendations approved by the TWIA Board of Directors at the December 2, 2016 quarterly meeting are included in the table below. Supporting detail for each recommendation may be found in the following sections and the proposed legislation language associated with each recommendation is included in **Appendix B**.

Legislative Recommendations	
1	Provide for a reasonable cap on TWIA-only policyholder surcharges if needed for the issuance of public securities.
2	Modify the requirements in Texas Insurance Code Section 2210.453 to allow for greater flexibility in the use and placement of reinsurance within TWIA's overall funding structure.
3	Provide for greater flexibility or financial assistance to meet the 100-year funding requirement of Section 2210.453(b) of the Texas Insurance Code in years following a major storm event(s).
4	Consider adopting additional non-premium, non-reinsurance hurricane loss funding mechanisms to improve TWIA finances to the point where the Association can pay claims greater than a 100-year season.
5	Modify Texas Insurance Code Section 2210.207 to allow replacement cost coverage to be determined at policy issuance.
6	Modify the Sunset provision in Texas Insurance Code Section 2210.002(b) to extend the date for the Association's sunset review.
7	Consider legislative changes to require Certificates of Compliance (WPI-8s) for all construction in the designated catastrophe area.

Recommendation 1: Policyholder Surcharge Cap

Provide for a reasonable cap on TWIA-only policyholder surcharges if needed for the issuance of public securities.

Discussion

In 2015, the 84th Texas Legislature enacted Senate Bill 900 which provides for TWIA-only policyholder surcharges for the payment of future Class 1, 2, or 3 public securities if premiums and other revenues are not sufficient. Other states with similar funding cap policyholder surcharges per year and/or cumulatively.

TWIA is currently working with the Texas Public Finance Authority (TPFA) and their legal and financial advisors to evaluate the ability to issue Class 2 and 3 public securities following a large event. As information develops there may be additional support for a cap on policyholder surcharges to improve the issuability of Class 2 and 3 Public Securities.

The proposed language below uses a cap of 20%. See **Appendix C** for an analysis of various surcharge amounts under different interest rate scenarios.

Recommendation 2: Greater Flexibility of Reinsurance Placement

Modify the requirements in Texas Insurance Code Section 2210.453 to allow for greater flexibility in the use and placement of reinsurance within TWIA's overall funding structure.

Discussion

TWIA is currently required to place its reinsurance after all other available funding. This prevents the Association from using reinsurance to protect these other sources of funding. By allowing reinsurance at various levels within its funding, TWIA could preserve a portion of the Catastrophe Reserve Trust Fund (CRTF) in smaller events and could reduce the likelihood of surcharges on TWIA and coastal policyholders and of assessments on member companies.

See **Appendix D** for TWIA's existing reinsurance placement and two examples of alternative reinsurance placement options.

Recommendation 3: Second-Season Funding Options

Provide for greater flexibility or financial assistance to meet the 100-year funding requirement of Section 2210.453(b) of the Texas Insurance Code in years following a major storm event(s).

Discussion

Section 2210.453(b) of the Texas Insurance Code provides the following:

> The association shall maintain total available loss funding in an amount not less than the probable maximum loss for the association for a catastrophe year with a probability of one in 100. If necessary, the required funding level shall be achieved through the purchase of reinsurance or the use of alternative financing mechanisms, or both, to operate in addition to or in concert with the trust fund, public securities, financial instruments, and assessments authorized by this chapter.

Chapter 2210 requires TWIA's funding sources to be utilized in the following order:

- TWIA premiums and other revenues,
- amounts in the Catastrophe Reserve Trust Fund (CRTF),
- $2 billion in public securities and member company assessments, and
- sufficient reinsurance for total funding equal to at least the 100-year storm season.

Should an event in one year reach $1.2 billion – requiring the use of the current year's premiums, the CRTF, and Class 1 public securities – these sources would be exhausted in year one and likely unavailable the year following an event. In order to comply with the 100-year requirement, TWIA will be required to purchase additional reinsurance in year two. The cost of reinsurance itself fluctuates as a result of catastrophic events and market conditions worldwide, creating the potential for substantial increases in TWIA reinsurance premiums after a major catastrophe, even if TWIA does not directly sustain any losses. The potential for additional reinsurance purchase along with the potential for an increase in the cost of reinsurance could put a strain on TWIA's resources, preventing the Association from complying with existing debt covenants.

TWIA recommends consideration in the statute to (1) allow for discretion by the Board of Directors in the years following a major event(s) not to have funding for a 100-year storm season or (2) allow for alternative means of paying for such additional reinsurance costs.

Recommendation 4: Funding Options in Excess of a 100-Year Season

Consider adopting additional non-premium, non-reinsurance hurricane loss funding mechanisms to improve TWIA finances to the point where the Association can pay claims greater than a 100-year season.

Discussion

Chapter 2210 provides the following sources of funding:

- TWIA premiums and other revenues,
- amounts in the Catastrophe Reserve Trust Fund,
- $2 billion in public securities and member company assessments, and
- any reinsurance purchased.

In 2015, the 84th Texas Legislature enacted SB 900 which provided increased certainty for the Association and its policyholders by requiring the Association's total annual funding to equal at least a 100-year storm season. Based on the Association's current exposures, a 100-year storm season equates to approximately $4.7 billion – almost double the ultimate cost of Hurricane Ike.

SB 900 and improvements in controls, operational efficiency, accountability, and leadership have placed the Association on firm financial footing for future storm seasons. To continue proactively and strategically improving the financial sustainability of the Association, this recommendation focuses on potential options for funding in excess of 1:100 in order to provide additional certainty for policyholders and agents, bond investors, legislators, and the insurance market throughout the State of Texas.

Currently, the only option available to secure funding beyond a 100-year season is the purchase of additional reinsurance or other similar risk transfer mechanisms. This reduces the amount of premiums available to be transferred to the CRTF. Additional deficit funding available to fund losses in excess of a 100-year season would allow for increased deposits into the CRTF, which in turn would reduce the amount and cost of reinsurance required to meet the 100-year minimum funding level.

A review of other states' residual markets reveals that other states statutory funding mechanisms do not cap the amount of deficit funding available to their plans. For example, Florida's property residual market can sell as many bonds as it needs without any explicit limit (however, the Florida plan does have some practical limits to its deficit financing, such as limits on the amount of the policy surcharges it is allowed to charge as a bond repayment revenue stream, bond market appetite, interest rates, etc.).

One potential method for increasing TWIA's available financing is to authorize the sale of Class 4 public securities to fund any TWIA losses above the existing funding sources. The Legislature would have to determine a suitable revenue source to fund such bonds. The proposed language below relies on a statewide policy surcharge as the revenue source for discussion purposes.

Recommendation 5: Replacement Cost Coverage Determination

Modify Texas Insurance Code Section 2210.207 to allow replacement cost coverage to be determined at policy issuance.

Discussion

Section 2210.207 currently stipulates that replacement cost coverage for residential policies is determined at the time of loss, based on the insurance to value being more or less than 80%. This creates uncertainty for policyholders and may result in policyholders receiving less coverage at the time of loss than anticipated.

Two options for consideration are:

1. Eliminate Sections 2210.207(c) and 2210.207(d) which require that replacement cost be determined at time of loss
2. Eliminate Sections 2210.207(c) and 2210.207(d) and amend Section 2210.207(b) to state that actual cash value or replacement cost coverage may be offered

With either option, replacement cost coverage would be addressed specifically in the TWIA underwriting guidelines filed with the Texas Department of Insurance and in the TWIA policy forms.

Eliminating the requirement that replacement cost is determined at time of loss and allowing the determination to be made at the time of policy issuance will provide more certainty, reduce confusion, and provide a broader range of clear choices for the policyholder. TWIA's Agent Advisory Group has expressed support for making this change under certain conditions.

This change would also be consistent with industry standards which provide replacement cost via a separate policy form or endorsement. TWIA's commercial policy and the Texas FAIR Plan Association's policies also provide replacement cost by endorsement. Residential policyholders may have to meet underwriting requirements to add the endorsement, but the endorsement itself could be offered at no additional cost.

Recommendation 6: Delay Sunset Review

Modify the Sunset provision in Texas Insurance Code Section 2210.002(b) to extend the date for the Association's sunset review.

Discussion

Currently, the Association is scheduled for sunset review during the period in which state agencies abolished in 2019 are reviewed; the review would commence in 2018. The Association recommends extending the sunset date until 2021 to allow time to complete several ongoing initiatives and analyze their respective outcomes, including depopulation, the Expert Panel, and new systems implementations. Further, TWIA's operational improvements have been independently and consistently verified by external auditors, most recently in 2014.

Since 2008, TWIA has undergone more than a dozen independent audits and examinations with varying areas of concentration. Audits have focused on claims handling, underwriting, internal controls, IT systems and security, financial examinations, and actuarial rate reviews.

Most recently, in 2014, TDI and Milliman completed audits of the Association's financial condition and internal controls and the claims and underwriting functions, respectively. The final reports indicate excellent results and no negative findings. All of the findings and recommendations have been addressed or completed as of November 12, 2015.

Excerpts from audit reports are included below.

- Milliman's September 2014 Underwriting report states that "under recent new management the [TWIA Underwriting] Department appears to be committed to more efficient, customer/agent friendly process design and execution." It further states that auditors "believe that current Underwriting management has made extensive progress in improving underwriting effectiveness and service during the interim period in which significant changes in automation are being planned."
- Milliman describes TWIA's claims organization as "well-staffed and well-managed with good controls, procedures, and practices in place to ensure compliance with state law, TWIA's requirements, and sound industry claims handling practices." The report also indicates that the Quality Assurance & Training program, Vendor Management function, and Catastrophe Plan are comprehensive and effectively implemented.
- The State Auditor's Office August 2012 report states that TWIA "has improved its processing of claims. The Association also has controls to help produce accurate financial information, ensure

accountability for Association funds, and adequately support and authorize non-claims-related expenditures. In addition, the Association's accounting practices for reporting selected financial transactions comply with the National Association of Insurance Commissioners' standards."

Recommendation 7: Enhanced Loss Mitigation Measures

Consider legislative changes to require Certificates of Compliance (WPI-8s) for all construction in the designated catastrophe area.

Discussion

Stronger building codes and building code enforcement throughout the designated catastrophe area benefits all coastal residents and property owners, not just TWIA policyholders. Building codes have been shown to reduce and in many cases prevent losses due to catastrophic wind. Reducing the magnitude of property losses on the coast would reduce TWIA's probable maximum losses, provide incentives for the private market to write along the coast and depopulate TWIA, eventually eliminate the need for the additional eligibility requirements provided by SB 1702, and ultimately protect consumers.

In the designated catastrophe area, there are windstorm resistant building codes that apply to TWIA applicants and policyholders. Some municipalities have voluntarily adopted the windstorm resistant codes, however, in many areas, including unincorporated areas there is no standard building code unless you are applying for coverage with TWIA.

Ensuring that all construction, alteration, remodeling, enlargement and repair of structures in the designated catastrophe area complies with the windstorm resistant building codes can be accomplished by linking compliance with the building code to the building permitting process. This can be achieved by requiring the person seeking the building permit to also submit information assuring that the building project will be inspected and built to the windstorm resistant building code. Such an approach would not require municipalities and counties to hire additional inspection staff and code enforcement staff because the builder or owner would be responsible for engaging a qualified inspector as currently recognized in the Insurance Code.

A qualified inspector includes:

1. a person determined by TDI to be qualified because of training or experience to perform building inspection;
2. a licensed professional engineer; and

3. an inspector who is certified by the International Code Council, the Building Officials and Code Administrators International, Inc., the International Conference of Building Officials or the Southern Building Code Congress International, Inc. and meets other requirements specified in the Insurance Code.

The benefits of this approach include:

a. Reducing confusion by having a consistent building code throughout the seacoast territory
b. Increasing protection for all coastal residents and property owners not just TWIA policyholders
c. Providing additional incentives for private market to write more on the coast by creating more resilient structures
d. Reducing potential policyholder surcharges and providing additional opportunities for TWIA to offer premium discounts
e. Broadening the use of the windstorm resistant building code without burdening municipalities and counties with additional costs to inspect to and enforce the code

Appendix A: TWIA History and Regulatory Changes

In 2008, Hurricanes Dolly and Ike together resulted in more than 100,000 claims and almost $3 billion in losses. Partly because of this increased activity and concerns about TWIA's claims handling practices, TDI conducted examinations of TWIA operations between 2008 and 2011 and noted several areas of concern related to TWIA's past corporate governance and operations, including accounting procedures and financial statements, internal controls, record-keeping, communications with the Board of Directors, and claims procedures. An independent audit commissioned in 2010 evaluated procedures related to claims, premiums, expenditures, financial reporting, information systems, business continuity, and internal controls. The independent auditors reported weaknesses in the claims assignment and quality assurance processes, as well as in the Association's conditions for selecting, contracting with, and evaluating the performance of claims adjusting firms. As a result of these observations and public concerns regarding claim handling, TDI placed the Association under Administrative Oversight in February 2011 and the Texas Legislature passed HB 3 in July 2011. These events necessitated numerous changes to TWIA operations. The Board of Directors hired John W. Polak to replace the former General Manager in April 2011 and to implement the changes necessary for the Association to comply with applicable regulations and best practices.

HB 3 significantly changed TWIA's residential and commercial policy forms, claim handling procedures, and affected the judicial remedies available for policyholders. It called for increased transparency, requiring TWIA to broadcast all Board meetings live and to complete bimonthly reports on compliance with the Insurance Code and Plan of Operation, and it specifically mandated that TWIA be subject to the Public Information Act, Government Code Chapter 552. HB 3 also required TDI to create an ombudsman program, funded by TWIA, to inform and educate policyholders about the claims process and dispute resolution and required the Commissioner to appoint an expert panel to provide a methodology for determining the extent of damage resulting from wind versus flood or surge.

After the passage of HB 3, TWIA developed an implementation plan to address all required changes. TWIA has now addressed all required changes, including a simplified renewals process, which was incorporated into the implementation of TWIA's new policy administration system, Policy Center, in 2015. The Association divided the HB 3 simplified renewal mandate into two phases.

The initial phase, simplifying the renewal application process for agents by enabling online submission of renewal applications and corresponding payments, was accomplished in the second quarter of 2015 with the implementation of Policy Center. Agents can now make changes to renewals electronically, automatically calculate applicable premium differences, and submit payments electronically by electronic funds transfer (EFT) or a policyholder eCheck. Policy Center immediately issues renewal policies for applications that meet all primary eligibility criteria and include payment.

The second phase focuses on simplifying the renewal process for policyholders. The process entails invoicing the policyholder and allowing the policyholder to submit payment directly to TWIA if no coverage changes are needed. The Association plans to build technical requirements to develop the application and processes necessary to implement the changes within the policy administration system at a future date.

Post-HB 3 Improvements

Leadership

Today, following the replacement of almost all of TWIA's previous executive team, leadership has significantly more experience, including extensive involvement with large carriers other than TWIA. The new executive leadership team has brought a broader range of skills and experience to TWIA with nearly 150 years of cumulative carrier experience, 90% with national carriers. The TWIA Board of Directors and management have a greater focus on accountability than ever before and have established new processes and standards consistent with industry best practices.

Accountability and Strategic Planning

Current leadership recognizes that the Association must be a continuously improving organization, and the management team persistently seeks ways to enhance the organization's effectiveness. The Association now employs extensive controls and detailed financial and operational metrics to measure and evaluate performance at every level of the Association. All operational areas have documented their procedures, and TWIA has greatly increased the level of transparency and communication among all levels of the Association and with external stakeholders.

In 2013, the TWIA Board of Directors and management created the opportunity to transform the Association's culture from task-based behavior to results-oriented accountability with strategic, enterprise-wide initiatives. To that end, the Association completed the first formal strategic planning process in 2013, enhanced the process in 2014, and continues to refine the process in 2016 and beyond.

Strategic planning is essential for the organization to continue progressing to meet the evolving needs of its policyholders and other stakeholders. As a result of annual strategic planning, leadership has articulated a clear mission and vision to guide the organization as a whole, a set of shared values to guide employee actions, and strategic goals to guide operations and services.

TWIA's mission is to efficiently provide essential property insurance products and services for eligible Texas policyholders when no one else will, accompanied by a vision to be respected and trusted by stakeholders. In carrying out this purpose, TWIA facilitates commerce in the coastal counties by enabling real estate sales and residential and commercial property mortgages and by providing a means to rebuild and recover after a catastrophic event.

TWIA embraces the following values in support of its mission:

Service and Respect
Provide quality service to our policyholders and respect the interest of a broad spectrum of stakeholders.

Stability and Efficiency
Be good stewards of the public trust by ensuring financial stability and operating efficiently.

Accountability and Integrity
Be accountable for performance and operate with integrity by holding ourselves to a high standard of ethics.

The Association's leadership has established the following strategic goals:

1. Secure sufficient funding to pay claims and other financial obligations
2. Drive operational efficiency throughout the enterprise
3. Build a collaborative culture of continuous improvement, service, and accountability
4. Operate transparently through consistent communication with stakeholders
5. Maintain a workforce with the right talent to meet organizational needs

Each year, the executive leadership team sets annual objectives, deadlines, and metrics to make further progress toward these goals in the following year.

Organizational Structure

Current leadership has completely restructured the organization, beginning with the Claims Department. In 2008, the TWIA Claims Department employed only five permanent managers and claims examiners, which did not allow TWIA to acquire an adequate number of contractors or properly train them during a catastrophe. Available resources were severely tested when the claim volume went from a modest 10 to 15 claims per day to over 92,000 claims in a 12-month period, 80,000 of which were filed in the first 30 days. Today, TWIA has a new infrastructure capable of supporting claims operations during both catastrophe and non-catastrophe years. The department now includes a permanent workforce of approximately 50 managers, examiners, and clerical employees supplemented by a flexible, trained, and pre-certified contingent workforce that varies based on claim volume and can be quickly and effectively deployed if volume warrants additional staff. This staffing model follows industry best practices and comprises one of the largest dedicated catastrophe teams in the industry. Management has also combined and cross-trained the TWIA and Texas FAIR Plan Association (TFPA) Claims Departments to increase operational efficiency and leverage resources. If TWIA claim volume is low, resources are shifted to TFPA claims and vice versa. Employees are also cross-trained to assist in other departments if claim volume is low for both Associations.

TWIA has also reorganized the Underwriting, IT, Accounting, and Legal and Compliance Departments to increase managerial controls, operational efficiency, and accountability.

In 2014, the Association established an internal audit function to bring systematic and disciplined independent evaluation of management's control environment. The internal audit function evaluates the adequacy and effectiveness of the Association's governance, risk management, and internal processes, as well as the quality of performance in achieving stated goals and objectives. Further, the internal audit function assists management and the Board in the effective discharge of their duties by furnishing them with analyses, appraisals, and recommendations concerning the activities reviewed. The internal audit function reports directly to the Board and demonstrates the Association's commitment to transparency, accountability, and continuous improvement.

TWIA also created a Communications & Legislative Affairs Department in 2015 to ensure open and transparent communications with all stakeholder groups. In order to better understand the interests of all of our diverse stakeholders, the Association has developed a multi-faceted communications strategy to engage each stakeholder group on multiple levels; an outreach program to educate and inform stakeholders about TWIA's mission, operations, and values; and an Agent Advisory Group to solicit input from the agent community and facilitate discussion about TWIA initiatives. Communications deployed a redesigned and user-friendly website in May 2015.

Operational Improvements

Financial

Financial metrics are key measures of performance at an enterprise level. The $183 million deficit recorded in 2012 was eliminated by December 2013, three months earlier than originally projected. TWIA has exceeded projected contributions to the Catastrophe Reserve Trust Fund (CRTF) in two of the three most recent years. These accomplishments are based in part on staff's successful budget conformity; TWIA-controllable expenses have been at or below budget each year from 2011 to 2015. Of the 36 property insurance plans in the United States, TWIA maintains the third-lowest operating expense as a percentage of premiums.

Through diligent efforts, staff has achieved several notable financial milestones concerning the Association's funding for the 2016 storm season and beyond, including:

- contributing $262.7 million to the CRTF as a result of 2014 operations and $93 million as a result of 2015 operations despite the largest storm season since Ike, bringing the current balance to more than $588 million,
- projected contribution to the CRTF of $142 million as a result of 2016 operations, resulting in a projected balance of $730 million – the highest in the history of the CRTF,
- issuing $500 million in pre-event Class 1 public securities in 2014 to provide immediate claims-paying capacity after a storm and additional protection to coastal policyholders and residents, with no associated impact on rates, and
- issuing the Association's first catastrophe bonds as part of the overall reinsurance programs in 2014 and 2015, providing multi-year stability and further diversifying and expanding the Association's claims-paying capacity.

Underwriting

Beginning in late 2013, the TWIA Underwriting management team began implementing significant operational changes to increase the efficiency and effectiveness of the underwriting process. Highlights include:

- implementing a more modern policy administration system in May 2015, providing numerous benefits to agents and insureds including:
  - More payment and agent self-service options
  - Automated, rules-based determination of eligibility
  - 91% of new applications and 88% of renewals are issued immediately, dramatically reducing the average time for an agent to receive a policy
- reorganizing the Underwriting department to more effectively manage workflows, eliminating the seasonal backlog of policy transactions
- incorporating risk visualization into the inspection process, using aerial imagery and third-party data to more efficiently assess insurability, rate more accurately, and increase the total number of property inspections while reducing the cost per inspection on a per policy basis

- installing a dedicated billing system consistent with industry best practices

- in-sourcing document production to better integrate with our other internal processes, reducing the time and costs associated with both incoming and outgoing mail

The Association monitors the following key underwriting performance metrics to measure the efficacy of those changes and reports on them to leadership and the Board of Directors in a monthly scorecard:

- Agent and policyholder survey scores
- Budget conformity and underwriting expense per policy
- Policy issuance cycle times
- Residential policies auto-issued and auto-renewed
- Quality assurance scores

Claims

The TWIA Claims Department has instituted sweeping changes over the last few years and continues to meet or exceed performance metrics and identify ways to enhance its operational capabilities.

In July 2016, TWIA implemented a new claims administration system, Claims Center. The new system is expected to speed up and improve the claims handling process and provide policyholders, agents, and TWIA with better ways to communicate and share more accurate information about a claim.

Claims Center provides policyholders and agents with online and mobile access to:

- Report new claims
- View important claim documents and correspondence
- Access messages shared between policyholders and TWIA claims examiners
- Track the progress of a claim, including payment status and details
- Directly contact the TWIA staff working on a claim with the ability to send and receive messages and documents

TWIA ended 2015 with 18,889 reported claims due to major storms in the spring and late October. It was the highest level of claims in any non-hurricane year, and second only to Hurricane Ike, as illustrated in the charts below.

Year	Number of Claims
2005	12,783
2006	1,862
2007	4,195
2008	99,813
2009	4,812
2010	4,801
2011	10,608
2012	8,601
2013	10,541
2014	2,843
2015	18,889
2016 (YTD)	7,928

Hurricane	Number of Claims
Rita (2005)	11,583
Dolly (2008)	8,374
Ike (2008)	93,046

Other Areas

Claims and underwriting are the primary operation centers of an insurance company, but they have not been the only areas of focus for operational improvements. Numerous initiatives in other areas have contributed to meeting strategic goals as well as addressing weaknesses noted in past audits. Key accomplishments are summarized below.

- Established a policy management program to ensure internal policies are reviewed annually, approved by management, and communicated properly to all employees, as well as to ensure version control necessary for auditing and incident management.

- Reduced legal costs and reliance on outside counsel by hiring in-house attorneys; insourcing e-discovery and matter management functions; and implementing legal review procedures.

- Increased timekeeping and leave balance accuracy and minimized potential wage and hour liability exposure by implementing an integrated HR Information System with electronic time and attendance tracking and automated leave approval.

- Implemented a comprehensive performance management program that incorporates developing goals and competencies; conducting quarterly and annual reviews to ensure consistency in performance and outcome-focused accountability; and providing credible, objective criteria to align merit pay with performance.

- Developed training programs for managers and employees to foster a learning and continuously improving organization; this training includes the Association's first extensive new hire orientation program, online business skills training, and instructor-led training.

- Increased quality of new hires by implementing enterprise-wide recruitment and selection programs to effectively acquire and manage talent.
- Reduced costs and cycle times and increased efficiency by reengineering workflows and implementing new staffing models for print services and mail operations.

Audit Results

In addition to the key performance indicators used to measure success internally, TWIA's operational improvements have been independently and consistently verified by external auditors, most recently in 2014.

Since 2008, TWIA has undergone more than a dozen independent audits and examinations with varying areas of concentration. Audits have focused on claims handling, underwriting, internal controls, IT systems and security, financial examinations, and actuarial rate reviews. TWIA has developed and implemented corrective measures and created action plans to track and report the Association's progress in addressing all audit or exam recommendations. TWIA has addressed 100% of the recommendations outlined in the audits performed by TDI (2009-2011), Robert E. Nolan, Deloitte & Touche, the State Auditor's Office, and KPMG, as well as the action items in the Operations Improvement Plan (a document assembled to track progress of recommendations and improvements arising from the Administrative Oversight process).

In 2014, TDI and Milliman completed audits of the Association's financial condition and internal controls and the claims and underwriting functions, respectively. The final reports indicate excellent results and no negative findings. All of the findings and recommendations have been addressed or completed as of November 12, 2015.

Through the initiatives implemented since 2011, TWIA management has replaced the previous culture with one dedicated to continuous improvement and accountability, better positioning TWIA to fulfill its mission. The ultimate evidence of this cultural shift being TWIA's release from TDI Administrative Oversight in 2016.

Excerpts from audit reports are included below.

- Milliman's September 2014 Underwriting report states that "under recent new management the [TWIA Underwriting] Department appears to be committed to more efficient, customer/agent friendly process design and execution." It further states that auditors "believe that current Underwriting management has made extensive progress in improving underwriting effectiveness and service during the interim period in which significant changes in automation are being planned."

- Milliman describes TWIA's claims organization as "well-staffed and well-managed with good controls, procedures, and practices in place to ensure compliance with state law, TWIA's requirements, and sound industry claims handling practices." The report also indicates that the Quality Assurance & Training program, Vendor Management function, and Catastrophe Plan are comprehensive and effectively implemented.

- In March 2014, TDI amended the terms of Administrative Oversight, citing "TWIA's operational improvements" as a factor in its decision to reduce the scope of oversight and the frequency of required reporting.

- The State Auditor's Office August 2012 report states that TWIA "has improved its processing of claims. The Association also has controls to help produce accurate financial information, ensure accountability for Association funds, and adequately support and authorize non-claims-related expenditures. In addition, the Association's accounting practices for reporting selected financial transactions comply with the National Association of Insurance Commissioners' standards."

Appendix B: Proposed Legislation Language

Recommendation 1: Policyholder Surcharge Cap

Proposed Legislation Language

Sec. 2210.611. EXCESS REVENUE COLLECTIONS, ~~AND~~ INVESTMENT EARNINGS AND LIMIT ON PREMIUM SURCHARGE AMOUNTS.

(a) Revenue collected in any calendar year from a premium surcharge under Sections 2210.612, 2210.613, and 2210.6131 that exceeds the amount of the public security obligations and public security administrative expenses payable in that calendar year and interest earned on the funds may, in the discretion of the association, be:

(1) used to pay public security obligations payable in the subsequent calendar year, offsetting the amount of the premium surcharge that would otherwise be required to be levied for the year under this subchapter;

(2) used to redeem or purchase outstanding public securities; or

(3) deposited in the catastrophe reserve trust fund.

(b) The total amount of all premium surcharges under Sections 2210.612, 2210.613 and 2210.6131 shall not exceed twenty (20) percent of the premium applicable to any policy on which surcharges are assessed on a cumulative basis.

Recommendation 2: Greater Flexibility of Reinsurance Placement

Proposed Legislation Language

Sec. 2210.453. FUNDING LEVELS; REINSURANCE AND ALTERNATIVE RISK FINANCING MECHANISMS. (a) The association may purchase reinsurance or use alternative risk financing mechanisms or both as necessary.

(b) The association shall maintain total available loss funding in an amount not less than the probable maximum loss for the association for a catastrophe year with a probability of one in 100. If necessary, the required funding level shall be achieved through the purchase of reinsurance or the use of alternative financing mechanisms, or both, to operate in addition to or in concert with the trust fund, public securities, financial instruments, and assessments authorized by this chapter.

~~(c) The attachment point for reinsurance purchased under this section may not be less than the aggregate amount of all funding available to the association under Subchapter B-1.~~

Recommendation 3: Second Season Funding Options

Proposed Legislation Language

Sec. 2210.453. FUNDING LEVELS; REINSURANCE AND ALTERNATIVE RISK FINANCING MECHANISMS. (a) The association may purchase reinsurance or use alternative risk financing mechanisms or both as necessary. (b) The association shall maintain total available loss funding in an amount not less than the probable maximum loss for the association for a catastrophe year with a probability of one in 100 unless the board of directors determines that the cost and availability of loss funding mechanisms required to maintain the funding required by this subsection is not financially reasonable for the association. ~~If necessary, the~~ The required funding level ~~shall~~ may be achieved through the purchase of reinsurance or the use of alternative financing mechanisms, or both, to operate in addition to or in concert with the trust fund, public securities, financial instruments, and assessments authorized by this chapter. (c) The attachment point for reinsurance purchased under this section may not be less than the aggregate amount of all funding available to the association under Subchapter B-1.

Recommendation 4: Funding Options in Excess of a 100-Year Season

Proposed Legislation Language

Sec. 2210.0743. PAYMENT FROM CLASS 4 PUBLIC SECURITIES. (a) Losses in a catastrophe year not paid under Sections 2210.0715, 2210.072, 2210.0725, 2210.073, 2210.074,2210.0741 and 2210.0742 shall be paid as provided by this section from Class 4 public securities authorized to be issued in accordance with Subchapter M on or after the date of any occurrence or series of occurrences that results in insured losses. Public securities issued under this section must be paid within a period not to exceed 10 years and may be paid sooner if the board of directors elects to do so and the commissioner approves.

(b) Public securities described by Subsection (a):

(1) shall be issued as necessary in a principal amount not to exceed $2.5 billion per catastrophe year, in the aggregate, whether for a single occurrence or a series of occurrences; and

(2) subject to the maximum described by Subdivision (1), may be issued, in one or more issuances or tranches, during the calendar year in which the occurrence or series of occurrences occurs or, if the public securities cannot reasonably be issued in that year, during the following calendar year.

(c) If the losses are paid with public securities described by this section, the public securities shall be paid in the manner prescribed by Subchapter M.

Section. 2210.6135. PAYMENT OF CLASS 4 PUBLIC SECURITIES. (a) The association shall pay Class 4 public securities issued under Section 2210.0743 from:

(1) net premium and other revenue; and

(2) if net premium and other revenue are not sufficient to pay the securities, a statewide premium surcharge collected in accordance with this section.

(b) On approval of the commissioner, the association and each insurer that provides insurance in this state shall assess, as provided by this section, a premium surcharge to each policyholder of a policy described by Subsection (c). The premium surcharge must be set in an amount sufficient to pay, for the duration of the issued public securities, all debt service not already covered by available funds and all related expenses on the public securities.

(c) The premium surcharge under this section shall be assessed on all policyholders of policies that cover insured property that is located in this state including automobiles principally garaged in this state. The premium surcharge shall be assessed on each Texas windstorm and hail insurance policy and each property and casualty policy, including an automobile insurance policy issued for automobiles and other property located in this state. A premium surcharge under Subsection (b) applies to:

(1) all polices written under the following lines of insurance:

(A) fire and allied lines;

(B) farm and ranch owners;

(C) residential property insurance; and

(D) private passenger automobile liability and physical damage insurance; and

(E) commercial automobile liability and physical damage insurance; and

(2) the property insurance portion of a commercial multiple peril insurance policy.

(d) A premium surcharge under this section is a separate charge in addition to the premiums collected and is not subject to premium tax or commissions. Failure by a policyholder to pay the surcharge constitutes failure to pay premium for purposes of policy cancellation.

Additional Conforming Amendments

Add definitions of "Class 4 public securities" and "Class 4 public securities trust fund" to 2210.602 Definitions

Add "Class 4" reference to 2210.604, Issuance of Public Securities Authorized

Add “2210.6135”,"Class 4” and “Class 4 public security trust fund” references to Section 2210.609 Repayment of Association’s Public Security Obligations

Add “2210.6135” reference to Section 2210.610, Public Security Payments

Add “2210.6135” reference to Section 2210.611, Excess Revenue Collections and Investment Earnings

Add “Class 4” reference to 2210.614, Refinancing Public Securities

Recommendation 5: Replacement Cost Coverage Determination

Proposed Legislation Language

Sec. 2210.207. WINDSTORM AND HAIL INSURANCE: REPLACEMENT COST COVERAGE. (a) In this section, "roof covering" means:

(1) the roofing material exposed to the weather;

(2) the underlayments applied for moisture protection; and

(3) all flashings required in the replacement of a roof covering.

(b) Subject to any applicable deductibles, ~~and~~ the limits for the coverage purchased by the insured, <u>and any applicable commissioner rules,</u> a windstorm and hail insurance policy issued by the association may include replacement cost coverage for one- and two-family dwellings, including outbuildings, as provided under the dwelling extension coverage in the policy.

~~(c) If, at the time of loss, the total amount of insurance applicable to a dwelling is equal to 80 percent or more of the full replacement cost of the dwelling or equal to the maximum amount of insurance otherwise available through the association, coverage applicable to the dwelling under the policy is extended to include the full cost of repair or replacement, without a deduction for depreciation.~~

~~(d) If, at the time of loss, the total amount of insurance applicable to a dwelling is equal to less than 80 percent of the full replacement cost of the dwelling and less than the maximum amount of insurance available through the association, liability for loss under~~

~~the policy may not exceed the replacement cost of the part of the dwelling that is damaged or destroyed, less depreciation.~~

~~(e)~~(c) Notwithstanding this chapter or any other law, the commissioner, after notice and hearing, may adopt rules to:

(1) authorize the association to provide actual cash value coverage instead of replacement cost coverage on the roof covering of a building insured by the association; and

(2) establish:

(A) the conditions under which the association may provide that actual cash value coverage;

(B) the appropriate premium reductions when coverage for the roof covering is provided on an actual cash value basis; and

(C) the disclosure that must be provided to the policyholder, prominently displayed on the face of the windstorm and hail insurance policy.

~~(f)~~(d) Notwithstanding Chapter 40, a hearing under Subsection ~~(e)~~(c) shall be held before the commissioner or the commissioner's designee.

~~(g)~~(e) The commissioner may adopt rules as necessary to implement this section.

Recommendation 6: Delay Sunset Review

Proposed Legislation Language

Sec. 2210.002. SHORT TITLE; SUNSET PROVISION. (a) This chapter may be cited as the Texas Windstorm Insurance Association Act.

(b) The association is subject to review under Chapter 325, Government Code (Texas Sunset Act), but is not abolished under that chapter. The association shall be reviewed during the period in which state agencies abolished in ~~2019~~ 2021 are reviewed. The association shall pay the costs incurred by the Sunset Advisory Commission in performing the review of the association under this subsection. The Sunset Advisory Commission shall determine the costs of the review performed under this subsection, and the association shall pay the amount of those costs promptly on receipt of a statement from the Sunset Advisory Commission regarding those costs. This subsection expires September 1, ~~2019~~ 2021.

Recommendation 7: Enhanced Loss Mitigation Measures

Proposed Legislation Language

Sec. 2210.2582. COMPLIANCE WITH BUILDING CODE: CATASTROPHE AREA.

(a) Any person seeking to obtain a permit to construct, alter, remodel, enlarge or repair a structure in the catastrophe area must provide an application for certificate of compliance form to the permitting authority. The application must be completed by a qualified inspector.

(b) The application must require the qualified inspector to attest that:

(1) the qualified inspector is responsible for the windstorm inspections of the building project; and

(2) the building project will be designed and inspected in compliance with the applicable building code under the plan of operation.

(c) Upon completion of the building project the qualified inspector must submit an inspection verification form to the permitting authority attesting that the completed construction, alteration, remodel, enlargement or repair meets the applicable building code standards under the plan of operation.

(d) The department may issue a certificate of compliance for the completed construction, alteration, remodel, enlargement or repair upon receipt of a valid inspection verification form completed by a qualified inspector.

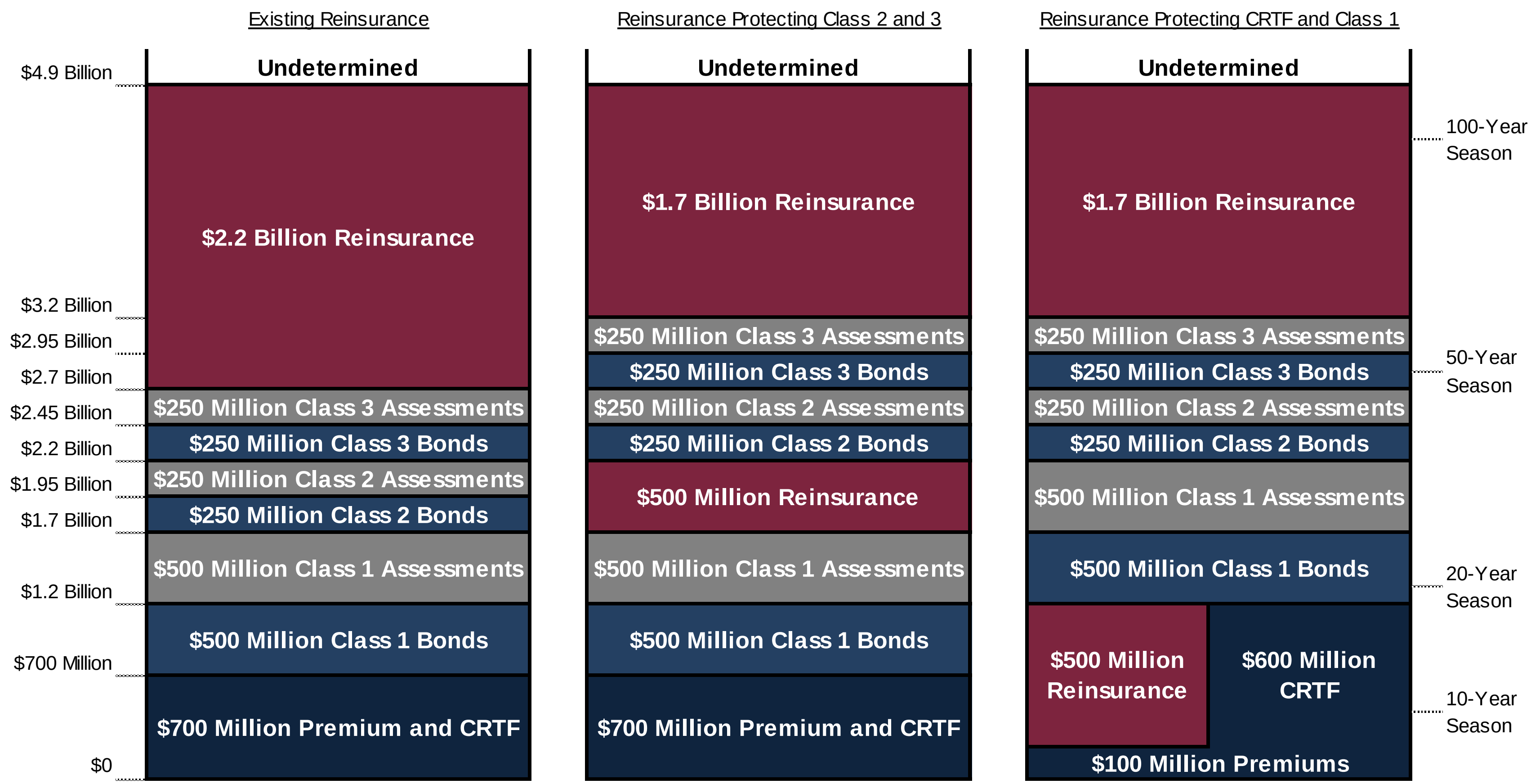
(e) The department shall prescribe the forms required by this section.

Appendix C: Surcharge Analysis under Different Interest Rate Scenarios

TWIA SURCHARGE ANALYSIS UNDER DIFFERENT INTEREST RATE SCENARIOS - AUGUST 2016								
Interest Rate	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%	11.00%	12.00%
Debt Issued (Class 2 or 3)	250,000,000	250,000,000	250,000,000	250,000,000	250,000,000	250,000,000	250,000,000	250,000,000
Term in Years	10	10	10	10	10	10	10	10
Annual Payment	32,376,144	33,966,990	35,594,376	37,257,372	38,955,022	40,686,349	42,450,357	44,246,041
Coverage Ratio	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Annual Debt Service Requirement	40,470,180	42,458,737	44,492,970	46,571,715	48,693,778	50,857,936	53,062,946	55,307,551
If a TWIA Premium Surcharge:								
Base Premium	500,000,000	500,000,000	500,000,000	500,000,000	500,000,000	500,000,000	500,000,000	500,000,000
Estimated Surcharge % - 1st Year	8.1%	8.5%	8.9%	9.3%	9.7%	10.2%	10.6%	11.1%
Estimated Surcharge % - 2nd Year & After	6.5%	6.8%	7.1%	7.5%	7.8%	8.1%	8.5%	8.8%
If a Coastal Premium Surcharge:								
Base Premium	2,500,000,000	2,500,000,000	2,500,000,000	2,500,000,000	2,500,000,000	2,500,000,000	2,500,000,000	2,500,000,000
Estimated Surcharge % - 1st Year	1.6%	1.7%	1.8%	1.9%	1.9%	2.0%	2.1%	2.2%
Estimated Surcharge % - 2nd Year & After	1.3%	1.4%	1.4%	1.5%	1.6%	1.6%	1.7%	1.8%
Note: Assuming an average residential policyholder premium of $1,600, each 1% surcharge would equate to an annual surcharge of $16, so a 10% surcharge would result in an annual $160 surcharge.								

TEXAS WINDSTORM INSURANCE ASSOCIATION

Appendix D: Flexible Reinsurance Placement Options



Notes: Reinsurance options show n are for discussion purposes only
Options show n w ould result in increased reinsurance costs